
Metropolitan Transit Authority of Black Hawk County

Financial Statements and Supplementary Information

June 30, 2006 and 2005

**BERGAN, PAULSEN
& COMPANY, P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS**

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Metropolitan Transit Authority of Black Hawk County
Waterloo, Iowa

We have audited the accompanying financial statements of the Metropolitan Transit Authority of Black Hawk County as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Transit Authority of Black Hawk County as of June 30, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2006, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Berg, Peterson & Company, P.C.

Waterloo, Iowa
September 6, 2006

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

The management of the Metropolitan Transit Authority of Black Hawk County (the Authority) offers the users of the Authority's financial statements this narrative overview and analysis of the financial activities for the years ended June 30, 2006 and 2005. This analysis is intended to be read in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

As of June 30, 2006 and 2005, total assets of the Authority exceeded total liabilities by \$4,513,914 and \$3,512,820, respectively. The amount of unrestricted net assets as of June 30, 2006, was \$1,400,265 compared to \$1,163,769 in 2005.

The net assets of the Authority increased by \$1,001,094 during the current fiscal year compared to an increase of \$81,416 last year. The increase in 2006 is a result of receiving funding for the purchase of buses and also a larger increase in revenues than in expenses. The increase in 2005 was a result of a larger increase in revenues than in expenses.

The Authority's total debt decreased by \$63,929 in 2006 compared to a decrease of \$192,149 in 2005. The decreases are because of principal payments made on the Authority's capital leases. In 2006, the Authority incurred additional borrowing under the State of Iowa's Amoco Loan Program.

Capital contributions from federal, state and local governments were \$1,146,388 in 2006 and \$251,469 in 2005. Such contributions were used to make capital lease payments, make improvements to the operating facility, to purchase handicap accessible minivans, and to purchase new buses.

For fiscal year 2006, total expenses exceeded total revenues before capital contributions resulting in a loss before capital contributions of \$145,294 compared to \$170,053 for 2005. The loss in 2006 is less than that of 2005 because of the decrease in operating expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management's Discussion and Analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise four components: statements of net assets, statements of revenues, expenses, and changes in net assets, statements of cash flows, and notes to the financial statements.

The statements of net assets present information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The statement of net assets can be found on page 9.

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The statements of revenues, expenses and changes in net assets present information on revenues, expenses, capital contributions, and how the Authority's net assets changed during the two most recent fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues, expenses and capital contributions are reported in the statements for some items that will only result in cash flows in future fiscal periods. The increase or decrease in net assets may serve as an indicator of the effect of the Authority's current year operations on its financial position. The statements of revenues, expenses and changes in net assets can be found on page 10 of this report.

The statements of cash flows summarize all of the Authority's cash flows into four categories: cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities. The statements of cash flows can be found on pages 11 and 12 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the statements of net assets, statements of revenues, expenses and changes in net assets, and statements of cash flows. The notes to the financial statements can be found on pages 13 through 18.

FINANCIAL ANALYSIS

Statements of Net Assets - Total assets of the Authority exceeded total liabilities by \$4,513,914 and \$3,512,820 as of June 30, 2006 and 2005, respectively. The largest portion of this excess (69%) in 2006 and (67%) in 2005 was invested in capital assets net of related outstanding debt. The Authority uses these capital assets to provide public transit services to customers in Black Hawk County; consequently, these assets are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources such as capital grants, since the capital assets themselves cannot be used to liquidate these liabilities.

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

Condensed Statements of Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current assets	\$ 1,826,740	\$ 1,433,031	\$ 1,404,308
Capital assets	<u>3,328,830</u>	<u>2,628,161</u>	<u>2,832,158</u>
Total Assets	<u>\$ 5,155,570</u>	<u>\$ 4,061,192</u>	<u>\$ 4,236,466</u>
Current liabilities	\$ 525,893	\$ 358,887	\$ 525,953
Long-term liabilities	<u>115,763</u>	<u>189,485</u>	<u>279,109</u>
Total Liabilities	<u>641,656</u>	<u>548,372</u>	<u>805,062</u>
Net assets			
Invested in capital assets, net of related debt	3,113,649	2,349,051	2,360,899
Unrestricted	<u>1,400,265</u>	<u>1,163,769</u>	<u>1,070,505</u>
Total Net Assets	<u>4,513,914</u>	<u>3,512,820</u>	<u>3,431,404</u>
Total Liabilities and Net Assets	<u>\$ 5,155,570</u>	<u>\$ 4,061,192</u>	<u>\$ 4,236,466</u>

The increase in unrestricted net assets of \$236,496 (20%) in 2006 was due to increases in operating revenues, investment income and nonoperating revenues, and decreases in operating expenses. The increase in unrestricted net assets of \$93,264 (9%) in 2005 was primarily due to increases in nonoperating revenues which was partially offset by an increase in operating expenses over operating revenues.

Current assets consist of cash, cash equivalents, receivables, prepaid expenses and inventories. These assets increased by \$393,709 (27%) in 2006, due primarily to increases in cash and cash equivalents. Current assets increased by \$28,723 (2%) in 2005 due primarily to increases in cash and cash equivalents offset partially by a decrease in receivables.

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Statements of Revenues, Expenses and Changes in Net Assets - During fiscal year 2006, the activities of the Authority resulted in an increase in net assets of \$1,001,094 compared to an increase of \$81,416 in 2005. The key elements of the changes in net assets are shown in the following table.

Condensed Summary of Revenues, Expenses and Changes in Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues			
Operating revenues	\$ 599,619	\$ 554,785	\$ 617,510
Investment income	19,335	4,732	3,067
Other nonoperating revenues	<u>2,955,413</u>	<u>3,113,918</u>	<u>2,726,224</u>
Total revenues	<u>3,574,367</u>	<u>3,673,435</u>	<u>3,346,801</u>
Expenses			
Operating expenses	3,712,256	3,829,470	3,627,574
Interest expense	<u>7,405</u>	<u>14,018</u>	<u>21,370</u>
Total expenses	<u>3,719,661</u>	<u>3,843,488</u>	<u>3,648,944</u>
Loss before capital contributions	(145,294)	(170,053)	(302,143)
Capital contributions	<u>1,146,388</u>	<u>251,469</u>	<u>291,291</u>
Increase (decrease) in net assets	1,001,094	81,416	(10,852)
Net assets, beginning	<u>3,512,820</u>	<u>3,431,404</u>	<u>3,442,256</u>
Net assets, ending	<u>\$ 4,513,914</u>	<u>\$ 3,512,820</u>	<u>\$ 3,431,404</u>

The increase in operating revenues of \$44,834 (8%) in 2006 was due to increases in passenger fares, the number of rides, and contract services. The decrease in operating revenues of \$62,725 (10%) in 2005 was due to decreases in the number of passenger rides and contract services.

Total expenses decreased by \$123,827 (3%) in 2006 because of the following increases and decreases: salaries and wages decreased by \$21,081 (1%) because of a decrease in the number of employees, diesel costs increased \$70,052 (34%) because of higher diesel prices, bus parts increased \$13,161 (9%) due to an increase in repairs and maintenance,

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subcontract services decreased by \$191,279 (87%) because these services were no longer needed, and interest expense decreased by \$6,613 (47%) because of a reduction in the principal balance of outstanding debt.

Total expenses increased by \$194,544 (5%) in 2005 because of increases in the following items: salaries and wages increased by \$91,001 (6%) because of salary and wage increases for operators and hourly and salaried employees and some overtime that was paid during the year, diesel costs increased \$73,172 (55%) because of higher diesel prices, casualty and liability insurance increased by \$18,185 (12%) because of increases in insurance rates and total value of insured assets on the property and liability policy, bus parts increased \$41,541 (41%) due to an increase in repairs and maintenance, prime time services decreased \$67,377 (55%) due to a decrease in funding, and interest expense decreased by \$7,352 (39%) because of a reduction in the principal balance of outstanding debt.

Capital contributions increased \$894,919 (356%) in 2006 primarily due to capital grant assistance by the State of Iowa, in the amount of \$812,964, to purchase four buses. Capital contributions decreased \$39,822 (14%) in 2005.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets - The Authority's investment in capital assets as of June 30, 2006 and 2005, amounted to \$3,328,830 and \$2,628,161 (net of accumulated depreciation), respectively. The total increase (decrease) in investments in capital assets for 2006 and 2005 was \$700,669 (27%) and (\$203,997) (7%), respectively.

In fiscal year 2006, the Authority received \$812,964 in a capital grant from the State of Iowa to purchase four buses.

The following table summarizes capital assets net of depreciation.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Buildings and improvements	\$ 1,272,118	\$ 1,198,852	\$ 1,274,918
Equipment	233,501	190,549	230,483
Furniture and fixtures	14,152	129,388	17,926
Rolling stock	<u>1,809,059</u>	<u>1,109,372</u>	<u>1,308,831</u>
Total	<u>\$ 3,328,830</u>	<u>\$ 2,628,161</u>	<u>\$ 2,832,158</u>

Additional information on the Authority's capital assets can be found in Note 2 on page 15.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006**

Long-Term Debt

The Authority had \$25,696 of long-term debt as of June 30, 2006. These funds were received under the State of Iowa's Amoco Loan Program and were used to finance the purchase of minivans.

Lease Obligations

The Authority had outstanding capital lease obligations of \$189,485 and \$279,110 as of June 30, 2006 and 2005, respectively. The decreases of \$89,635 and \$192,149 in 2006 and 2005, respectively, are due to lease payments made.

REQUESTS FOR INFORMATION

This financial report is designed to provide our patrons and other interested parties with a general overview of the Authority's finances. If you have questions concerning any of the information provided in this report or need additional financial information, contact the business manager at Metropolitan Transit Authority of Black Hawk County, 1515 Black Hawk Street, Waterloo, Iowa 50702.

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY**Statements of Net Assets
As of June 30, 2006 and 2005**

	Assets	
	2006	2005
Current Assets		
Cash and cash equivalents	\$ 1,259,635	\$ 769,364
Receivables	366,630	493,654
Prepaid expenses	43,493	52,546
Inventories	156,982	117,467
	<u>1,826,740</u>	<u>1,433,031</u>
Total Current Assets		
	<u>3,328,830</u>	<u>2,628,161</u>
Capital Assets, net		
	<u>\$ 5,155,570</u>	<u>\$ 4,061,192</u>
Total Assets		
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 6,424	
Current maturities of capital lease obligations	92,994	\$ 89,625
Accounts payable	269,699	115,120
Accrued expenses	140,146	136,402
Accrued IPERS	16,630	17,740
	<u>525,893</u>	<u>358,887</u>
Total Current Liabilities		
Noncurrent Liabilities		
Long-term debt	19,272	
Capital lease obligations	96,491	189,485
	<u>115,763</u>	<u>189,485</u>
Total Long-Term Liabilities		
Net Assets		
Invested in capital assets, net of related debt	3,113,649	2,349,051
Unrestricted	1,400,265	1,163,769
	<u>4,513,914</u>	<u>3,512,820</u>
Total Net Assets		
	<u>\$ 5,155,570</u>	<u>\$ 4,061,192</u>
Total Liabilities and Net Assets		

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Statements of Revenues, Expenses and Changes in Net Assets For the years ended June 30, 2006 and 2005

	2006	2005
Operating Revenues		
Passenger fares	\$ 441,288	\$ 423,520
Contract services	<u>158,331</u>	<u>131,265</u>
Total Operating Revenues	<u>599,619</u>	<u>554,785</u>
Operating Expenses		
Operations	3,020,661	3,169,723
General and administrative	294,987	300,097
Depreciation	<u>396,608</u>	<u>359,650</u>
Total Operating Expenses	<u>3,712,256</u>	<u>3,829,470</u>
Operating Loss	<u>(3,112,637)</u>	<u>(3,274,685)</u>
Nonoperating Revenues (Expenses)		
Interest expense	(7,405)	(14,018)
Rental/lease income	71,701	83,401
Advertising income	15,625	19,639
In-kind contributions	18,139	
Interest income	19,335	4,732
Gain on sale of equipment		880
Miscellaneous income	8,018	20,027
Operating grants	<u>2,841,930</u>	<u>2,989,971</u>
Total Nonoperating Revenues	<u>2,967,343</u>	<u>3,104,632</u>
Net Loss Before Contributions	(145,294)	(170,053)
Capital Contributions	<u>1,146,388</u>	<u>251,469</u>
Change in Net Assets	1,001,094	81,416
Net Assets, Beginning of Year	<u>3,512,820</u>	<u>3,431,404</u>
Net Assets, End of Year	<u><u>\$ 4,513,914</u></u>	<u><u>\$ 3,512,820</u></u>

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Statements of Cash Flows

For the years ended June 30, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities		
Receipts from customers	\$ 622,097	\$ 538,119
Payments to suppliers	(1,611,296)	(1,894,567)
Payments to employees	(1,574,512)	(1,655,292)
Net Cash Used In Operating Activities	<u>(2,563,711)</u>	<u>(3,011,740)</u>
Cash Flows from Noncapital Financing Activities		
Operating grants and subsidies	<u>3,059,959</u>	<u>3,675,816</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition of property and equipment	(1,071,581)	(157,415)
Principal payments under capital lease obligations	(89,625)	(192,149)
Interest paid on capital debt and leases	(10,494)	(20,248)
Proceeds from sale of equipment		2,642
Capital grants	<u>1,146,388</u>	<u>251,469</u>
Net Cash Used in Capital and Related Financing Activities	<u>(25,312)</u>	<u>(115,701)</u>
Cash Flows from Investing Activities		
Interest	<u>19,335</u>	<u>4,732</u>
Net Increase in Cash and Cash Equivalents	490,271	553,107
Cash and Cash Equivalents at Beginning of Year	<u>769,364</u>	<u>216,257</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 1,259,635</u></u>	<u><u>\$ 769,364</u></u>
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:		
Operating Loss	\$ (3,112,637)	\$ (3,274,685)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation	396,608	359,650
Gain on sale of equipment		(880)
Changes in:		
Receivables	22,478	(16,666)
Other assets	9,053	(12,958)
Inventories	(39,515)	(7,890)
Accounts payable and accrued liabilities	<u>160,302</u>	<u>(58,311)</u>
Net Cash Used in Operating Activities	<u><u>\$ (2,563,711)</u></u>	<u><u>\$ (3,011,740)</u></u>

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**Statements of Cash Flows
For the years ended June 30, 2006 and 2005**

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2006	2005
Cash paid during the year for interest	<u>\$ 10,494</u>	<u>\$ 20,248</u>

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

During 2006, three minivans acquired were financed in the amount of \$25,696.

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

Notes to the Financial Statements

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES:

BUSINESS ACTIVITY

The Metropolitan Transit Authority of Black Hawk County (the Authority) was established under Chapter 28E of the Code of Iowa for the purpose of providing public transportation service to citizens of the cities of Waterloo and Cedar Falls. The Authority is governed by a board of thirteen trustees, nine of which are appointed by the City of Waterloo and four by the City of Cedar Falls. A significant portion of the Authority's operations are subsidized by the cities of Waterloo and Cedar Falls, the state of Iowa and the federal government.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues result from providing services in connection with the Authority's principal ongoing operations. All other revenues are non-operating. Operating expenses can be tied to the services being provided. Other expenses are non-operating.

BASIS OF ACCOUNTING

The activities of the Authority are similar to those of proprietary funds and therefore are reported as an enterprise fund in accordance with governmental accounting and financial reporting principles issued by the Governmental Accounting Standards Board (GASB). Accordingly, transactions are accounted for using the accrual basis of accounting. Under Alternative 1 of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply all standards issued on or before November 30, 1989, by the Financial Accounting Standards Board (FASB), in addition to all GASB standards.

ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reported period. Actual results could differ from the estimates.

CASH EQUIVALENTS

The Authority considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

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Notes to the Financial Statements

NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd.):

INVENTORIES

Inventories are stated at the lower of average cost or market and consist primarily of repair parts and fuel.

CAPITAL ASSETS

Capital assets are assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Depreciation is computed under the straight-line method over the economic useful lives of the assets. Equipment held under capital leases is classified as capital assets and amortized using the straight-line method over the term of the lease. Lease amortization is included in depreciation expense.

DEPOSITS

All deposits are in a single financial institution and are carried at cost. The Authority does not have a deposit policy for custodial credit risk.

	2006	2005
Insured (FDIC)	\$ 100,000	\$ 100,000
Collateralized by securities held by the pledging financial institution	<u>1,159,635</u>	<u>669,364</u>
Total Deposits	<u>\$ 1,259,635</u>	<u>\$ 769,364</u>

COMPENSATED ABSENCES

Accumulated unpaid vacation and sick pay are accrued when incurred. As of June 30, 2006 and 2005, the Authority had accrued \$75,233 and \$69,270, respectively, for unpaid vacation and sick pay.

BOARD DESIGNATED NET ASSETS

Of the \$1,400,265 of unrestricted net assets as of June 30, 2006, \$940,000 and \$200,000 has been designated for cash flow reserves and capital replacement, respectively, by the Authority's board of trustees. Designated funds remain under control of the board of trustees, which may at its discretion later use the funds for other purposes.

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

Notes to the Financial Statements

NOTE 2 - CAPITAL ASSETS:

The following summarizes the Authority's capital assets and changes for the years ended June 30, 2006 and 2005.

	Beginning June 30, 2005	Additions	Dispositions	Ending June 30, 2006
Buildings and improvements	\$ 2,572,986	\$ 37,870		\$ 2,610,856
Equipment	540,886	91,770	\$ 5,147	627,509
Furniture and fixtures	81,552	8,597	37,907	52,242
Rolling stock	<u>3,678,427</u>	<u>959,040</u>		<u>4,637,467</u>
	<u>6,873,851</u>	<u>1,097,277</u>	<u>43,054</u>	<u>7,928,074</u>
Less accumulated depreciation:				
Buildings and improvements	1,256,722	82,016		1,338,738
Equipment	350,337	48,818	5,147	394,008
Furniture and fixtures	69,576	6,421	37,907	38,090
Rolling stock	<u>2,569,055</u>	<u>259,353</u>		<u>2,828,408</u>
	<u>4,245,690</u>	<u>396,609</u>	<u>43,054</u>	<u>4,599,244</u>
Total Capital Assets, net	<u>\$ 2,628,161</u>	<u>\$ 700,668</u>	<u>\$ -</u>	<u>\$ 3,328,830</u>

	Beginning June 30, 2004	Additions	Dispositions	Ending June 30, 2005
Buildings and improvements	\$ 2,455,574	\$ 117,412		\$ 2,572,986
Equipment	537,086	3,800		540,886
Furniture and fixtures	78,852	2,700		81,552
Rolling stock	<u>3,903,804</u>	<u>33,503</u>	<u>\$ 258,880</u>	<u>3,678,427</u>
	<u>6,975,316</u>	<u>157,415</u>	<u>258,880</u>	<u>6,873,851</u>
Less accumulated depreciation:				
Buildings and improvements	1,180,656	76,066		1,256,722
Equipment	306,603	43,734		350,337
Furniture and fixtures	60,926	8,560		69,576
Rolling stock	<u>2,594,973</u>	<u>231,200</u>	<u>257,118</u>	<u>2,569,055</u>
	<u>4,143,158</u>	<u>359,650</u>	<u>257,118</u>	<u>4,245,690</u>
Total Capital Assets, net	<u>\$ 2,832,158</u>	<u>\$ (202,235)</u>	<u>\$ 1,762</u>	<u>\$ 2,628,161</u>

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

Notes to the Financial Statements

NOTE 3 - PENSION AND RETIREMENT BENEFITS:

The Authority contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Authority is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Authority's contributions to IPERS for the years ended June 30, 2006 and 2005, were \$94,034 and \$98,737, respectively, equal to the required contributions for each year.

NOTE 4 - RELATED PARTY TRANSACTIONS:

The City of Waterloo is providing free use of the land on which the Authority's operating facility and Central Transfer Facility were built for as long as these facilities remain in operation.

NOTE 5 - SUMMARY OF LONG-TERM DEBT:

In fiscal year 2006, the Authority entered into an agreement with the State of Iowa's AMOCO Capital Match Revolving Loan program to borrow \$25,696 over a four year period. As of June 30, 2006, there was \$25,696 outstanding under this program. This loan is unsecured and does not call for any interest payments. Principal payments of \$6,424 must be made on December 31, 2006, 2007, 2008 and 2009.

NOTE 6 - CAPITAL LEASES:

The following is an analysis of leased property under capital leases:

	2006	2005
Equipment	\$ 466,112	\$ 466,112
Less: Accumulated amortization	<u>(135,948)</u>	<u>(89,337)</u>
	<u>\$ 330,164</u>	<u>\$ 376,775</u>

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

Notes to the Financial Statements

NOTE 6 - CAPITAL LEASES (Cont'd.):

The following is a schedule by years of future minimum lease payments under capital leases as of June 30, 2006:

Year Ending	
2007	\$ 100,119
2008	<u>100,119</u>
	200,238
Less: Amount representing interest	<u>(10,753)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 189,485</u>
Changes in the Capital Lease Obligation:	
Amount outstanding at June 30, 2005	\$ 279,110
Payments made	<u>(89,625)</u>
Amount outstanding at June 30, 2006	<u>\$ 189,485</u>
Due within one year	<u>\$ 92,994</u>

NOTE 7 - OPERATING LEASES:

The Authority leases a portion of the Central Transfer Facility to an outside bus transportation service company under a cancelable operating lease. Rental income from the lease was \$9,600 for each of the years ended June 30, 2006 and 2005.

NOTE 8 - POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS:

In addition to the pension benefits described in Note 3, the Authority provides health insurance coverage for its retired employees, terminated employees and employees who have been laid off. For those employees who are terminated or laid off, health care coverage is provided for the first three months after termination or lay off. For employees who elect early retirement, the Authority provides the same medical insurance coverage that was available under the Authority's employment until the individual attains age 65. After age 65, the Authority provides a Medicare carve-out policy to the individual. In addition, the Authority provides as a death benefit life insurance for employees who retire from the Authority and have been employed for a stipulated number of years. Substantially all of the Authority's employees are eligible for this benefit.

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

Notes to the Financial Statements

NOTE 8 - POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS (Cont'd.):

As of and for the year ended June 30, 2006, there were ten retired employees who received approximately \$48,912 in benefits from the Plan. As of and for the year ended June 30, 2005, there were ten retired employees who received approximately \$56,714 in benefits from this Plan. There were no terminated employees receiving benefits under this Plan.

The Authority's cost of providing both the postretirement and post employment benefits is recognized by expensing the insurance programs' premiums as paid. The Authority has made no provision for recognizing the cost of postretirement benefits which may eventually be paid to employees who have not yet retired.

NOTE 9 - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts, theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past two fiscal years.

NOTE 10 - CONTINGENCIES AND COMMITMENTS:

The Authority participates in numerous Federal and State grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies, therefore, to the extent the Authority has not complied with the rules and regulations governing these grants, refunds of any money received may be required. In the opinion of the Authority, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

The Authority is involved in legal proceedings that arise in the ordinary course of business activities. Although the ultimate disposition of these proceedings is not presently determinable, management does not expect the outcome to have a material adverse effect on the Authority's financial position.

Metropolitan Transit Authority of Black Hawk County

Single Audit Reports

Year Ended June 30, 2006

**BERGAN, PAULSEN
& COMPANY, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY

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**INDEPENDENT AUDITORS' REPORT OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Metropolitan Transit Authority of Black Hawk County
Waterloo, Iowa

We have audited the financial statements of the Metropolitan Transit Authority of Black Hawk County as of and for the year ended June 30, 2006, and have issued our report thereon dated September 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Metropolitan Transit Authority of Black Hawk County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Metropolitan Transit Authority of Black Hawk County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Items 06-II-1 and 06-II-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Metropolitan Transit Authority of Black Hawk County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Metropolitan Transit Authority of Black Hawk County in a separate letter dated September 6, 2006.

This report is intended solely for the information and use of the board of trustees, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bergan, Palmer & Company, P.C.

Waterloo, Iowa
September 6, 2006

BERGAN, PAULSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees
Metropolitan Transit Authority of Black Hawk County
Waterloo, Iowa

Compliance

We have audited the compliance of the Metropolitan Transit Authority of Black Hawk County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended . The Metropolitan Transit Authority of Black Hawk County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Metropolitan Transit Authority of Black Hawk County's management. Our responsibility is to express an opinion on the Metropolitan Transit Authority of Black Hawk County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Metropolitan Transit Authority of Black Hawk County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Metropolitan Transit Authority of Black Hawk County's compliance with those requirements.

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531 Commercial St., Suite 250
P.O. Box 2100
Waterloo, Iowa 50704-2100
(319) 234-6885
Fax (319) 234-6287

602 Main St., Suite 100
P.O. Box 489
Cedar Falls, Iowa 50613-0026
(319) 268-1715
Fax (319) 268-1720

In our opinion, the Metropolitan Transit Authority of Black Hawk County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended . However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 06-III-1.

Internal Control Over Compliance

The management of the Metropolitan Transit Authority of Black Hawk County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Metropolitan Transit Authority of Black Hawk County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the Metropolitan Transit Authority of Black Hawk County as of and for the year ended June 30, 2006, and have issued our report thereon dated September 6, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures

of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of trustees, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Borgen, Peterson & Company, P.C.

Waterloo, Iowa
September 6, 2006

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY**Schedule of Expenditures of Federal Awards****For the year ended June 30, 2006**

<u>U.S. Department of Transportation</u>	<u>Federal CFDA Number</u>	<u>Federal Grant/ Pass Through Entity Identifying Number</u>	<u>Expenditures</u>
Operating Assistance	20.507	IA-90-4306	\$ 1,014,986
	20.507	IA-90-0284	1,066
Capital Assistance			
Bus and related facilities	20.500	IA-90-0306	41,651
Bus and related facilities	20.500	IA-90-0253	13,240
Multimodal System	20.500	IA-90-0272	33,449
Bus and related facilities	20.500	IA-90-0228	52,118
Bus and related facilities	20.500	IA-90-0301	128,167
Total U.S. Department of Transportation			<u>\$ 1,284,677</u>

The schedule of expenditures of federal awards includes the federal grant activity of the Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

METROPOLITAN TRANSIT AUTHORITY OF BLACK HAWK COUNTY
Schedule of Findings and Questioned Costs
For the year ended June 30, 2006

Part I: Summary of Independent Auditors' Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the Metropolitan Transit Authority of Black Hawk County.
2. Two reportable conditions disclosed during the audit of the financial statements are reported in the Report Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. The audit did not disclose any instances of noncompliance which are material to the financial statements of the Metropolitan Transit Authority of Black Hawk County.
4. The audit did not disclose any reportable conditions relating to the Metropolitan Transit Authority of Black Hawk County's major federal award program.
5. The auditor's report on compliance for the major federal program for the Metropolitan Transit Authority of Black Hawk County expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with OMB Circular A-133, Section 510(a) are reported in this Schedule.
7. The only major program is CFDA Number 20.507 – Federal Transit Formula Grants.
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The Metropolitan Transit Authority of Black Hawk County did not qualify as a low-risk auditee.

Part II: Finding Related to the Financial Statements

REPORTABLE CONDITIONS

06-II-1 Deposits

Condition - The general manager makes a list of checks received in the mail and verifies via the receipted deposit tickets that the checks were properly deposited. However, the general manager does not compare supporting documentation for cash deposits to the receipted deposit ticket to verify that all cash has been properly deposited.

Criteria - Internal controls should be in place that provide reasonable assurance that cash is properly being deposited.

Effect - Cash may not be properly deposited in the Authority's bank accounts.

Recommendation - Procedures for cash receipts should be expanded to include a review of documentation supporting the amount of cash included in the receipted deposit ticket.

06-II-2 Accounts Payable

Condition - The accounts payable aged trial balance is not kept current and reconciled to the general ledger control account on a monthly basis.

Criteria - Internal controls should be in place that require the accounts payable aged trial balance to be kept current and reconciled to the general ledger control account on a monthly basis.

Effect - The general ledger control account and accounts payable aged trial balance do not reflect the proper outstanding balance at any point in time.

Recommendation - The finance manager should ensure that the accounts payable aged trial balance is accurate and properly reconciled to the general ledger control account on a monthly basis.

Part III: Findings and Questioned Costs for Federal Awards

06-III-1 Special Reporting

Condition and Criteria - The Report of DBE Awards or Commitments and Payments (DBE) had not been completed by its due date of June 1, 2006. Under Title 49 CFR Section 26.11, agencies implementing a DBE program, are required to submit semi-annual reports within the appropriate reporting deadline.

Effect of Condition - Loss of federal funding.

Cause of Condition - Difficulties in completing and submitting the DBE report by its due date.

Recommendation - Management should complete and file the DBE report as soon as possible.

Authority's Response - Management has completed and filed the DBE report effective June 6, 2006.

Part IV: Status of Prior Year Findings

For the year ended June 30, 2005, the following were included in the schedule of findings and questioned costs:

05-III-1 Matching Requirements

Condition and Criteria - Documentation identifying land to be transferred to the Authority in order to satisfy the matching requirement on grant IA-03-0073, (Intermodal Parking Facility) has not been completed.

Resolution - The proper documentation has been completed.

05-III-2 Section 15 Reporting

Condition and Criteria - The National Transit Database (NTD) report for the year ended June 30, 2005, had not been completed by its due date of October 28, 2005. Under Title 49 U.S.C. 5335(a), transit agencies receiving Urbanized Area Formula funds are required to submit a NTD report within the appropriate reporting deadline.

Resolution - Management completed and filed the NTD report effective November 17, 2005.